

**Middlebury College**  
**Consolidated Financial Statements**  
**June 30, 2012 and 2011**

**Middlebury College**  
**Index**  
**June 30, 2012 and 2011**

---

	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1
<b>Consolidated Financial Statements</b>	
Statements of Financial Position .....	2
Statements of Activities .....	3-4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6-30



## Report of Independent Auditors

To the President and Fellows of  
Middlebury College

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of Middlebury College (the "College") at June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

October 22, 2012

**Middlebury College**  
**Consolidated Statements of Financial Position**  
**June 30, 2012 and 2011**

*(in thousands of dollars)*

	2012	2011
<b>Assets</b>		
Cash and cash equivalents	\$ 25,004	\$ 26,507
Accounts receivable, net	7,905	7,448
Contributions receivable, net	33,012	33,980
Inventories, prepaid expenses, and other assets	7,004	4,999
Deposits with bond trustees	52,254	1,045
Student loans receivable, net	21,651	23,310
Investments	927,310	952,247
Contributions receivable from remainder trusts	2,971	3,146
Beneficial interest in perpetual trusts held by others	23,777	25,872
Land, buildings, and equipment, net	368,697	364,336
Total assets	<u>\$ 1,469,585</u>	<u>\$ 1,442,890</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 41,392	\$ 44,781
Funds held for others	5,879	4,793
Deferred revenues	18,614	17,175
Annuities and other split interest obligations	19,726	18,774
Refundable government loan funds	13,992	13,798
Long-term debt	338,590	287,430
Total liabilities	<u>438,193</u>	<u>386,751</u>
Commitments and contingencies		
Net assets		
Unrestricted	303,072	324,200
Temporarily restricted	432,345	444,835
Permanently restricted	295,975	287,104
Total net assets	<u>1,031,392</u>	<u>1,056,139</u>
Total liabilities and net assets	<u>\$ 1,469,585</u>	<u>\$ 1,442,890</u>

The accompanying notes are an integral part of these consolidated financial statements.

# Middlebury College

## Consolidated Statements of Activities

### Year Ended June 30, 2012, with Comparative Totals

<i>(in thousands of dollars)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2012	2011
<b>Operating revenues and other support</b>					
Comprehensive and other student fees	\$ 183,192	\$ -	\$ -	\$ 183,192	\$ 179,968
Less: Financial aid	(47,100)	-	-	(47,100)	(47,913)
Net comprehensive and other student fees	136,092	-	-	136,092	132,055
Contributions	8,455	14,509	-	22,964	25,624
Sponsored activities	11,828	-	-	11,828	9,575
Investment return					
Endowment distribution	44,606	3,636	-	48,242	48,639
Other investment income	1,330	(720)	-	610	4,099
Other sources	13,569	134	-	13,703	11,893
Net assets released from restrictions	16,025	(16,025)	-	-	-
Total operating revenues and other support	231,905	1,534	-	233,439	231,885
<b>Operating expenses</b>					
Educational and general					
Instruction	74,829	-	-	74,829	70,952
Academic support	34,205	-	-	34,205	30,156
Student services	31,410	-	-	31,410	29,166
Institutional support	42,383	-	-	42,383	40,131
Sponsored activities	9,540	-	-	9,540	9,575
Total educational and general	192,367	-	-	192,367	179,980
Auxiliary enterprises	39,044	-	-	39,044	37,337
Other deductions	136	-	-	136	149
Total operating expenses	231,547	-	-	231,547	217,466
Change in net assets from operations	358	1,534	-	1,892	14,419
<b>Nonoperating activities</b>					
Endowment return, net of distribution	(20,752)	(16,726)	191	(37,287)	103,890
Contributions	1,414	3,966	10,718	16,098	12,074
Other investment income	11	184	96	291	703
Change in value of deferred gifts	(503)	684	(2,061)	(1,880)	4,282
Realized and unrealized loss on interest rate swap	-	-	-	-	(2,182)
Campaign expenditures	(1,300)	-	-	(1,300)	(1,200)
Early retirement expense	-	-	-	-	(79)
Adjustment for funds underwater	1,492	(1,492)	-	-	-
Other	(1,848)	(640)	(73)	(2,561)	(4,659)
Total nonoperating activities	(21,486)	(14,024)	8,871	(26,639)	112,829
Increase (decrease) in net assets	(21,128)	(12,490)	8,871	(24,747)	127,248
<b>Net assets</b>					
Beginning of year	324,200	444,835	287,104	1,056,139	928,891
End of year	\$ 303,072	\$ 432,345	\$ 295,975	\$ 1,031,392	\$ 1,056,139

The accompanying notes are an integral part of these consolidated financial statements.

**Middlebury College**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2011**

<i>(in thousands of dollars)</i>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2011 Total</b>
<b>Operating revenues and other support</b>				
Comprehensive and other student fees	\$ 179,968	\$ -	\$ -	\$ 179,968
Less: Financial aid	<u>(47,913)</u>	<u>-</u>	<u>-</u>	<u>(47,913)</u>
Net comprehensive and other student fees	132,055	-	-	132,055
Contributions	12,712	12,912	-	25,624
Sponsored activities	9,575	-	-	9,575
Investment return				
Endowment distribution	45,203	3,436	-	48,639
Other investment income	926	3,173	-	4,099
Other sources	11,789	104	-	11,893
Net assets released from restrictions	<u>11,441</u>	<u>(11,441)</u>	<u>-</u>	<u>-</u>
Total operating revenues and other support	<u>223,701</u>	<u>8,184</u>	<u>-</u>	<u>231,885</u>
<b>Operating expenses</b>				
Educational and general				
Instruction	70,952	-	-	70,952
Academic support	30,156	-	-	30,156
Student services	29,166	-	-	29,166
Institutional support	40,131	-	-	40,131
Sponsored activities	<u>9,575</u>	<u>-</u>	<u>-</u>	<u>9,575</u>
Total educational and general	179,980	-	-	179,980
Auxiliary enterprises	37,337	-	-	37,337
Other deductions	<u>149</u>	<u>-</u>	<u>-</u>	<u>149</u>
Total operating expenses	<u>217,466</u>	<u>-</u>	<u>-</u>	<u>217,466</u>
Change in net assets from operations	<u>6,235</u>	<u>8,184</u>	<u>-</u>	<u>14,419</u>
<b>Nonoperating activities</b>				
Endowment return, net of distribution	29,396	74,063	431	103,890
Contributions	873	111	11,090	12,074
Other investment income	423	252	28	703
Change in value of deferred gifts	1	1,131	3,150	4,282
Realized and unrealized loss on interest rate swap	(2,182)	-	-	(2,182)
Campaign expenditures	(1,200)	-	-	(1,200)
Early retirement expense	(79)	-	-	(79)
Adjustment for funds underwater	1,430	(1,430)	-	-
Other	<u>(3,063)</u>	<u>(1,818)</u>	<u>222</u>	<u>(4,659)</u>
Total nonoperating activities	<u>25,599</u>	<u>72,309</u>	<u>14,921</u>	<u>112,829</u>
Increase (decrease) in net assets	31,834	80,493	14,921	127,248
<b>Net assets</b>				
Beginning of year, as restated	<u>292,366</u>	<u>364,342</u>	<u>272,183</u>	<u>928,891</u>
End of year	<u>\$ 324,200</u>	<u>\$ 444,835</u>	<u>\$ 287,104</u>	<u>\$ 1,056,139</u>

The accompanying notes are an integral part of these consolidated financial statements.

# Middlebury College

## Consolidated Statements of Cash Flows

### Years Ended June 30, 2012 and 2011

(in thousands of dollars)

	2012	2011
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (24,747)	\$ 127,248
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	22,387	21,758
Contributions restricted for long-term investments	(16,643)	(15,040)
Receipt of contributed securities	(7,326)	(7,068)
Contributions of real property	(4,700)	-
Amortization of bond issuance costs	96	91
Loss on defeasance of debt	-	572
Amortization of bond discount and premium, net	(401)	(243)
Bond premium	6,859	6,757
Loss on disposal of buildings and equipment	38	849
Contributions receivable bad debt expense	328	302
Change in value of deferred gifts	952	1,898
Realized and unrealized (gain) on investments	(14,035)	(149,121)
Payment on interest rate swap	-	(12,854)
Unrealized loss on interest rate swap	-	1,421
Unrealized loss (gain) on contributions receivable from remainder trusts	175	(712)
Unrealized loss (gain) on beneficial interest in perpetual trusts	2,095	(4,164)
Changes in operating assets and liabilities		
Accounts receivable	(457)	(1,560)
Contributions receivable	640	4,700
Inventories, prepaid expenses, and other assets	(1,504)	(586)
Accounts payable and accrued expenses	(3,389)	(491)
Deferred revenues	1,439	(1,592)
Funds held for others	1,086	390
Other	194	192
Gifts in kind	(76)	(102)
Net cash used in operating activities	<u>(36,989)</u>	<u>(27,355)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	104,086	87,532
Purchases of investments	(60,414)	(50,444)
Purchases of property and equipment	(26,710)	(22,194)
Sales of contributed securities	7,326	7,068
Student loans granted	(1,943)	(2,404)
Student loans repaid	3,602	3,653
Net cash provided by investing activities	<u>25,947</u>	<u>23,211</u>
<b>Cash flows from financing activities</b>		
Contributions restricted for long-term investments	16,643	15,040
Source (use) of deposit with bond trustees, net of earnings	(51,209)	17
Proceeds from long-term debt	46,150	95,035
Payments on bonds and notes payable	(1,448)	(104,358)
Bond issue costs	(597)	(795)
Net cash provided by financing activities	<u>9,539</u>	<u>4,939</u>
Net increase in cash and cash equivalents	<u>(1,503)</u>	<u>795</u>
<b>Cash and cash equivalents</b>		
Beginning of year	<u>26,507</u>	<u>25,712</u>
End of year	<u>\$ 25,004</u>	<u>\$ 26,507</u>
<b>Supplemental data</b>		
Interest paid	\$ 13,974	\$ 11,827
Assets acquired and included in accounts payable	1,469	3,826

During 2012 and 2011, donor payments on pledges made with contributed securities were \$2,359 and \$1,950 respectively.

The accompanying notes are an integral part of these consolidated financial statements.

# **Middlebury College**

## **Notes to Consolidated Financial Statements**

### **June 30, 2012 and 2011**

---

*(in thousands of dollars)*

#### **1. Background**

Middlebury College is a liberal arts college located in Middlebury, Vermont. The College was founded in 1800 and is a leading liberal arts college with an emphasis on literature, languages, international studies and environmental studies. Approximately 2,450 undergraduate students come from throughout the United States of America and seventy countries. Approximately 70% of the students are from outside of New England.

Over one-half of the students spend at least one semester off campus, primarily outside of the United States of America. In addition to the Middlebury campus, the College has schools located in China, Egypt, France, Germany, Israel, Italy, Japan, Jordan, Russia, Spain, Brazil, Argentina, Uruguay, Chile and Mexico.

The College's summer program, enrolling more than 2,000 students, consists of ten language schools and the Bread Loaf School of English. Programs in French, German, Italian, Russian, and Spanish are offered at both the undergraduate and graduate levels, with undergraduate courses offered in Arabic, Chinese, Japanese, Portuguese, and Hebrew. In addition to the summer courses offered in Vermont, the Bread Loaf School of English offers summer sessions in New Mexico, North Carolina, and at Oxford in the United Kingdom.

The College's graduate school, The Monterey Institute of International Studies, the "Institute", is located in Monterey, California. The Institute provides higher education in translation, interpretation and language education and international policy management. In addition, there are two research centers on campus, the James Martin Center for Nonproliferation Studies and the Center for East Asian Studies. Also, the Institute has a research center located in Vienna, Austria, the Vienna Center for Disarmament and Non-proliferation.

#### **Tax-Exempt Status**

The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code.

#### **2. Summary of Significant Accounting Policies**

##### **Basis of Presentation**

Middlebury College has three affiliated entities, Delineation Corporation (the "Corporation"), the President and Friends of Middlebury College, and International Philanthropy. The Corporation is a nonprofit organization founded for the purpose of holding property for the College. The College advances funds to the Corporation for expenses incurred for the maintenance of real property. The President and Friends of Middlebury College is a nonprofit organization formed for the purpose of providing catering and retail dining operations of the College. International Philanthropy is a nonprofit organization established for the purpose of receiving contributions from international sources.

The consolidated financial statements include Middlebury College and its affiliated entities, herein referred to as the "College". All inter-entity transactions have been eliminated in consolidation.



# Middlebury College

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

---

*(in thousands of dollars)*

#### **Basis of Accounting**

The financial statements are prepared in accordance with generally accepted accounting principles in the United States of America, on the accrual basis of accounting and present net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

#### ***Permanently Restricted Net Assets***

Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

#### ***Temporarily Restricted Net Assets***

Net assets subject to donor-imposed stipulations that will be met by actions of the College and/or passage of time, as well as unappropriated appreciation on permanently restricted endowment funds.

#### ***Unrestricted Net Assets***

Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless restricted by donor or by law. Expirations in subsequent years of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from restrictions between the applicable classes of net assets.

The College charges undergraduate students attending the Vermont campus a comprehensive fee which includes the cost of tuition, room and board, and fees. The Institute charges its graduate students tuition and related fees.

Auxiliary enterprises include the operations of the dining services, residential halls, College bookstore, Snowbowl and the golf course. Revenues from auxiliary enterprises, except for the revenue from residential and dining halls, are included in other sources of operating revenues in the statement of activities. The revenues derived from residential and dining halls are included in the comprehensive fee.

Nonoperating activities include net realized and unrealized gains and losses on investments, less amounts distributed for operating purposes, permanently restricted contributions for long-term investment, temporarily restricted and unrestricted contributions for nonoperating activities with the exception of capital gifts, retirement expense for past service, adjustments for funds underwater, campaign expenditures, net assets released from restriction for nonoperating purposes and the change in value of deferred gifts. Capital gifts are recorded as operating activity and are released to unrestricted net assets when the depreciation on the capital asset is recognized.

# Middlebury College

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

---

*(in thousands of dollars)*

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The College's significant estimates include the valuation of its investments and derivative instruments as well as the estimated net realizable value of receivables for contributions, gifts, pledges, student loans and accounts receivable, the estimated useful lives of buildings and equipment and its liabilities for its asset retirement obligation and its split interest agreements. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include interest-bearing money market accounts not held for investment purposes. Cash equivalents have maturities of three months or less at the date of purchase.

#### **Contributions**

Contributions, including interests in perpetual trusts held by others, are recognized as revenue in the period received at the fair value on the date of the contribution. Gifts of noncash assets are recorded at their fair value on the date of the contribution. Conditional promises to give are not recorded as revenue until they become unconditional when the conditions on which they depend are substantially met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted operating or nonoperating revenue depending on the use of the proceeds.

Contributions of land, buildings, and equipment without donor stipulations are reported as unrestricted nonoperating revenue. Contributions of cash or other assets which a donor has stipulated be used to acquire land, buildings, and equipment are reported as temporarily restricted operating revenue. The temporary restrictions are considered to be released when assets are placed in service except for contributions for capital assets which are released from restriction when placed in service and to the extent that depreciation is recognized.

#### **Contributions Receivable**

Contributions receivable include pledges that are recorded at their present value using discount rates ranging from approximately 1.0% to 5.5% through the year ended June 30, 2012. For 2012, the present value is calculated using a risk-free rate of return adjusted for the credit risk the College assumes for uncollectible pledges of 1.23%. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

#### **Inventories**

Inventories are stated at lower of cost, utilizing the first-in, first-out method, or market.

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

---

*(in thousands of dollars)*

**Fair Value Measurements**

The fair value accounting standard defines fair value and establishes a framework for measuring fair value. The framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under this principle are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the College has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value of the College's investments is determined in the following manner:

<b>Investment Type</b>	<b>Value</b>
Short-term investments, consisting principally of money market funds and short-term notes	At quoted market value which approximates cost
Equity securities and debt securities	At quoted market value or as determined by investment managers
Private equity partnerships	Estimated fair value determined by the general partner
Real estate, mortgages, and other	Estimated fair value determined by the real estate partnership or College
Alternative equity securities	Estimated fair value determined by the fund manager

# Middlebury College

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

---

*(in thousands of dollars)*

The College utilizes the fund's net asset value ("NAV") as its estimate of fair value for those funds whose value is determined by the appropriate manager or general partner.

These valuations may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Because of the inherent uncertainty of valuations, the estimated values as determined by the appropriate manager or general partners may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

#### **Derivatives**

The College accounts for all derivatives except those qualifying for the normal purchase/normal sale exception on the balance sheet at fair value. Fair value is determined using a valuation model utilizing market observable inputs. The College has entered into forward oil purchase contracts with certain suppliers for the purchase of oil for its heating and cooling plant to hedge the price exposure for the College's major fuel source. These agreements meet the normal purchase/normal sale exception and, therefore, have not been recorded on the College's statement of financial position. The College has also entered into foreign currency contracts which have been recorded on the College's statement of financial position.

#### **Endowment**

Vermont and California Uniform Prudent Management of Institutional Funds Act ("UPMIFA") requires unappropriated accumulated earnings on donor-imposed permanently restricted endowments to be maintained as temporarily restricted funds.

#### **Contributions Receivable from Remainder Trusts**

Donors have established irrevocable trusts under which the College is a beneficiary but not the trustee. The present value of the portion of the trust to be distributed to the College upon the termination of the trust is recorded as contributions receivable from remainder trusts.

#### **Interest in Perpetual Trusts Held by Others**

Interest in perpetual trusts held by others includes irrevocable trusts established for the benefit of the College whereby the principal is held in perpetuity by others and the earnings are remitted to the College. The interest in perpetual trusts is recorded at fair value as of the date of the gift, and adjusted to fair value at year-end.

# Middlebury College

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

---

(in thousands of dollars)

#### Land, Buildings, and Equipment

Land, buildings, equipment, arts and antiques are recorded at cost at date of acquisition or fair value at date of gift. Depreciation is computed utilizing the straight-line method over the estimated lives of the depreciable asset.

Category	Range of Estimated Useful Lives (Years)
Land improvements	20
Buildings	20–60
Equipment	4–10

Arts and antiques are maintained as collections and, accordingly, are not depreciated.

#### Joint Venture

In May, 2010, the College entered into a joint venture arrangement with K12, Inc., (“K12”), an unrelated publicly held company. The new company, Middlebury Interactive Languages, LLC, (“MIL”), was created for the purpose of pursuing commercial opportunities associated with developing and delivering language learning software and residential language immersion education to pre-college students.

The College agreed to fund the joint venture by contributing to MIL certain intangible assets with a fair value of \$14,000 and \$4,000 in cash. The College has a 40% ownership interest in MIL. As the College does not control the joint venture but does exercise influence, this investment is recorded using the equity method.

In 2012, the College incurred a loss on its equity investment in MIL of approximately \$674, which is included in nonoperating activities in the Consolidated Statement of Activities.

#### Asset Retirement Obligation

An asset retirement obligation (“ARO”) is a legal obligation associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the College records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The College derecognizes ARO liabilities when the related obligation is settled. The College has recorded an ARO liability in accrued expenses of \$3,854 and \$3,658 at June 30, 2012 and 2011, respectively.

#### Deferred Revenues

Deferred revenues consist primarily of student fees related to the College and its language schools. This liability account also consists of the multi-year prepayment plan, summer school billing (net of financial aid), and sponsored activity.

# Middlebury College

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

---

*(in thousands of dollars)*

#### **Annuities and Other Split Interest Obligations**

Donors have contributed assets to the College in exchange for a promise that the College will pay the donor or other beneficiaries a fixed amount or percentage of assets over their lifetimes. The present value of these promises is a liability of the College and is recorded as annuities and other split interest obligations.

Donors have made contributions to the College with the stipulation that their contributions be invested and all or a portion of the resulting income be paid to beneficiaries during their lifetimes. Upon the death of the named beneficiaries, the assets become the property of the College. These contributions are recorded in revenue at fair value with corresponding estimated liabilities for future amounts payable to other beneficiaries recorded in annuities and other split interest obligations. The liabilities associated with these gifts are adjusted to fair value at each reporting period using the term of the related gift instrument.

#### **Refundable Government Loan Funds**

Refundable government loan funds represent Perkins loan funds provided to students by the federal government through the College. The College is required to collect the loans on behalf of the federal government. The amounts due from the students are reported in the College's financial statements as student loans receivable to the College. The amount due to the federal government, if the College should no longer participate, is reported as refundable government loan funds. It is not practicable to determine the fair value of student loans receivable because they are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and are subject to significant restrictions as to their transfer and disposition.

#### **Functional Expenses**

Depreciation, operations and maintenance costs, and interest are allocated to the functional expense categories reported within the operating section of the statement of activities.

Depreciation and operations and maintenance costs are allocated based upon the use of facilities and equipment. Interest is allocated based on specific identification of the use of debt proceeds.

#### **Sponsored Activities**

Sponsored activities include various research and instructional programs funded by external parties including the federal government, foreign and state governments, and private foundations.

#### **Campaign Activities**

Campaign contributions and expenditures total the net cost of operating the Middlebury Initiative, a \$500,000 fundraising campaign to fund four strategic priorities: (1) access and opportunity, (2) teaching and mentoring, (3) programs and infrastructure, and (4) increasing institutional flexibility. The cost of operating the Middlebury Initiative is reported as nonoperating activity on the statement of activities. Expected completion of the Middlebury Initiative is 2014.

#### **Subsequent Events**

The College has adopted the accounting guidance for accounting and disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. Accordingly, management has evaluated subsequent events for the period after June 30, 2012 through October 22, 2012, the date the financial statements were issued.

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

---

*(in thousands of dollars)*

**Reclassifications**

Certain amounts in the June 30, 2011 financial statements have been reclassified to conform to the June 30, 2012 financial statement presentation.

**3. Receivables**

**Accounts Receivable**

Accounts receivable consists of receivables for annual comprehensive fees, graduate school tuition, schools abroad tuition, and summer school room, board, and tuition. The provision for uncollectible amounts was \$475 and \$385 at June 30, 2012 and 2011, respectively.

**Contributions Receivable**

Contributions receivable consists of the following at June 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Due less than one year	\$ 14,514	\$ 13,319
One to five years	21,869	24,836
More than five years	<u>3</u>	<u>-</u>
	36,386	38,155
Less: Discount and allowance	<u>(3,374)</u>	<u>(4,175)</u>
	<u>\$ 33,012</u>	<u>\$ 33,980</u>

As of June 30, 2012 and 2011, the College had received conditional promises to give of \$11,000 and \$14,000, respectively. Because of their conditional nature, these gifts have not been recognized as contribution revenue by the College. During 2004, the College received a conditional pledge ("Challenge Grant") of \$50,000 from an anonymous donor. The intention of the gift is to encourage more contributions of all sizes to the College. In 2011, the same anonymous donor increased the Challenge Grant by \$2,500 to stimulate the annual fund of the Monterey campus. As of June 30, 2012, the College has recognized \$41,500 on the Challenge Grant pledge from the donor. The remaining portion of the conditional pledge will be recognized as future fund-raising goals are reached.

**Student Loans Receivable**

Student loans receivable represents amounts due from students for federal and college approved loans. The provision for uncollectible amounts is \$805 and \$920 at June 30, 2012 and 2011, respectively.

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

---

*(in thousands of dollars)*

**Credit Loss Disclosure**

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. Middlebury College's Perkins receivable represents the amounts due from current and former students under the Federal Perkins Loan program. Loans disbursed under the Federal Perkins Loan program are able to be assigned to the Federal Government in certain nonrepayment situations and with substantial documentation justifying assignment. The College may assign several loans to the Department of Education annually. In these situations, the Federal portion of the loan balance is guaranteed.

Factors also considered by management when performing an assessment, in addition to general economic conditions and the other factors described above, include, but are not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis. The current allowance is sufficient considering the minimal number of individual loans that have not been collectible.

It is Middlebury College's policy to write off a loan when the loan is delinquent 180 days or more and appropriate notification has been made to the student that the loan is considered in default. All collection efforts must have been exhausted prior to this point. This includes skip-tracing efforts and a review of all partial cancellation and forgiveness options per Federal regulations. Loans less than 180 days delinquent are deemed to have a minimal delay in payment and are generally not written off but are reserved in accordance with the terms discussed above.

	2012		2011	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
The College's Perkins loans	\$ 3,021	\$ 188	\$ 4,861	\$ 188
Other student loans	5,408	617	5,540	732
Other receivable	35	-	32	-
	\$ 8,464	\$ 805	\$ 10,433	\$ 920



**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

(in thousands of dollars)

**4. Financial Instruments**

**Investments**

Investments held by the College at June 30, 2012 and 2011 including pooled investments and other separately invested funds, were comprised of the following:

	<b>2012</b>		
	<b>Pooled</b>	<b>Separately Invested</b>	<b>Total at Fair Value</b>
Money market funds	\$ 18,833	\$ 1,833	\$ 20,666
Due to operations	(189)	-	(189)
Equity securities	279,216	38,659	317,875
Alternative equities	200,686	-	200,686
Debt securities	41,907	10,760	52,667
Real estate and mortgages	17,252	12,847	30,099
Private equity partnerships	296,046	43	296,089
Other investments	4,164	5,253	9,417
	<u>\$ 857,915</u>	<u>\$ 69,395</u>	<u>\$ 927,310</u>

  

	<b>2011</b>		
	<b>Pooled</b>	<b>Separately Invested</b>	<b>Total at Fair Value</b>
Money market funds	\$ 39,825	\$ 2,100	\$ 41,925
Due from operations	4,363	-	4,363
Equity securities	262,678	44,138	306,816
Alternative equities	207,376	-	207,376
Debt securities	40,496	9,966	50,462
Real estate and mortgages	14,693	7,709	22,402
Private equity partnerships	308,293	45	308,338
Other investments	4,836	5,729	10,565
	<u>\$ 882,560</u>	<u>\$ 69,687</u>	<u>\$ 952,247</u>

The College has developed a diversified endowment investment portfolio with a strong orientation to equity investments and to strategies designed to take advantage of market inefficiencies. The College's investment objectives are guided by the College's asset allocation policy and are achieved in partnership with external investment managers operating through a variety of vehicles, including separate accounts, limited partnerships, and commingled funds. Investments in real estate and mortgages include the College's investment in real estate partnerships.

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

---

*(in thousands of dollars)*

The College's alternative equity managers seek to generate high returns regardless of the direction of the overall stock market and may use derivatives to exploit inefficiencies in securities markets. Accordingly, derivatives in the College's investment portfolio may include currency forward contracts, interest rate and currency swaps, call and put options, debt and equity futures contracts, equity swaps, and other vehicles that may be appropriate in certain circumstances. The College's risk in alternative equity funds is limited to the amount it currently has invested in the funds. The College's risk in private equity partnerships is limited to the amount it currently has invested in the funds, legally obligated uncalled capital commitments to the funds, and certain distributions previously received.

As of June 30, 2012 and 2011, the College had committed \$130,256 and \$122,130, respectively, of unrestricted net assets to be invested. These commitments are to fund private equity partnerships over a multi-year period. These capital calls are expected to be funded with cash on hand or using proceeds of liquidated securities.

The College has \$129,628 and \$118,787 of the investment portfolio at June 30, 2012 and 2011, respectively, invested in funds which invest in international securities. These investments are subject to the additional risk of currency fluctuations. Also included in investments are \$47,949 and \$42,086 at June 30, 2012 and 2011, respectively, for split interest agreements.

**Investment Shares**

The following table summarizes the status and results of pooled investments at June 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Number of principal shares (not in thousands)	587,688.753	603,091.713
Market value per share (not in thousands)	\$ 1,459.813	\$ 1,463.393
Distribution per share (not in thousands)	65.04	69.18

For the years ended June 30, 2012 and 2011, the difference between distribution per share and dividends and interest earned per share was funded by realized and unrealized gains of \$39,785 and \$40,314, respectively. During 2012 and 2011, distributions totaling \$203 and \$242, respectively, were added back to principal in accordance with donor restrictions.

The Board of Trustees approves a distribution of investment return based on the average per share market value of the pooled investments over the twelve calendar quarters preceding the beginning of the next fiscal year.

The components of total investment return from all sources consist of the following for the years ended June 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Interest, dividends, and other income	\$ (2,179)	\$ 8,306
Realized gains, net	24,781	29,800
Change in unrealized gains, net	<u>(10,746)</u>	<u>119,225</u>
	<u>\$ 11,856</u>	<u>\$ 157,331</u>

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

(in thousands of dollars)

The College recognized an impairment in its investments in the amount of \$2,850 and \$0 in 2012 and 2011, respectively, where the decline in fair value was determined to be other-than-temporary. In assessing whether the decline in fair value of these investments was other-than-temporary, the College determined that it does not have significant positive evidence to conclude that the decline was temporary.

Direct, external investment management fees were \$3,561 and \$2,436 in 2012 and 2011, respectively, and are netted against interest, dividends, and other income in the statement of activities. Purchase and sale transactions are recorded on a trade date basis.

The College had seven investments with an unrealized loss as of June 30, 2012. The aggregate fair value of these investments as of June 30, 2012 was \$119,709. The aggregate amount of the unrealized loss was \$5,963. Six of these investments have had an unrealized loss for greater than twelve months. The College has determined that these losses are not other-than-temporary.

The following table represents the College's financial assets and liabilities by fair value measurements as of June 30, 2012:

	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
<b>Investments</b>				
Money market funds	\$ 20,666	\$ -	\$ -	\$ 20,666
Due to operations	(189)	-	-	(189)
Equity securities	38,977	-	278,898	317,875
Alternative equities	-	-	200,686	200,686
Debt securities	10,553	-	42,114	52,667
Real estate and mortgages	5,417	-	22,279	27,696
Private equity partnerships	-	2,047	291,222	293,269
Other investments	263	-	6,120	6,383
Total investments at fair value	75,687	2,047	841,319	919,053
Investments valued using the equity method	-	-	-	2,821
Investments valued using other methods	-	-	-	5,436
Total investments	75,687	2,047	841,319	927,310
<b>Other Assets</b>				
Remainder trusts	-	-	2,971	2,971
Perpetual trusts	-	-	23,777	23,777
Total other assets at fair value	-	-	26,748	26,748
Total investments and other assets	\$ 75,687	\$ 2,047	\$ 868,067	\$ 954,058

# Middlebury College

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

(in thousands of dollars)

The following table summarizes the College's Level 3 activity for the year ended June 30, 2012:

	Beginning Balance at June 30, 2011	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases	Sales	Net Transfer in (out) of Level 3	Ending Balance at June 30, 2012
<b>Level 3 Assets</b>							
Money market funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to operations	-	-	-	-	-	-	-
Equity securities	262,352	(1,399)	(3,965)	20,510	1,400	-	278,898
Alternative equities	207,376	7,067	1,638	2	(15,397)	-	200,686
Debt securities	40,659	-	2,324	-	(869)	-	42,114
Real estate and mortgages	17,423	-	2,927	-	1,929	-	22,279
Private equity partnerships	302,722	18,739	(11,222)	39,902	(58,919)	-	291,222
Other investments	10,135	374	613	-	-	(5,002)	6,120
Total investments	840,667	24,781	(7,685)	60,414	(71,856)	(5,002)	841,319
Foreign exchange receivable	2	-	-	-	(2)	-	-
Remainder trusts	3,146	-	(175)	-	-	-	2,971
Perpetual trusts	25,872	-	(2,095)	-	-	-	23,777
Total investments and other assets	\$ 869,687	\$ 24,781	\$ (9,955)	\$ 60,414	\$ (71,856)	\$ (5,002)	\$ 868,067

The following table represents the College's financial assets and liabilities by fair value measurements as of June 30, 2011:

	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
<b>Investments</b>				
Money market funds	\$ 41,925	\$ -	\$ -	\$ 41,925
Due from operations	4,363	-	1,306	5,669
Equity securities	44,464	-	262,352	306,816
Alternative equities	-	-	206,070	206,070
Debt securities	9,803	-	40,659	50,462
Real estate and mortgages	4,978	-	17,423	22,401
Private equity partnerships	-	2,122	302,722	304,844
Other investments	430	-	10,135	10,565
Total investments at fair value	105,963	2,122	840,667	948,752
Investments valued using the equity method	-	-	-	3,495
Total investments	105,963	2,122	840,667	952,247
<b>Other Assets</b>				
Foreign exchange contract receivable	-	-	2	2
Remainder trusts	-	-	3,146	3,146
Perpetual trusts	-	-	25,872	25,872
Total other assets at fair value	-	-	29,020	29,020
Total investments and other assets	\$ 105,963	\$ 2,122	\$ 869,687	\$ 981,267

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

---

(in thousands of dollars)

The following table summarizes the College's Level 3 activity for the year ended June 30, 2011.

	Beginning Balance at June 30, 2010	Realized Gains	Change in Unrealized Gains (Losses)	Net Purchases Sales and Settlements	Net Transfer in (out) of Level 3	Ending Balance at June 30, 2011
<b>Level 3 Assets</b>						
Money market funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to operations	-	-	-	-	-	-
Equity securities	234,799	7,991	44,949	(25,387)	-	262,352
Alternative equities	190,830	10,350	25,195	(18,999)	-	207,376
Debt securities	45,816	-	(468)	(4,689)	-	40,659
Real estate and mortgages	16,557	87	923	(144)	-	17,423
Private equity partnerships	246,279	10,326	41,633	4,484	-	302,722
Other investments	12,113	1,046	1,051	(4,075)	-	10,135
Total investments	746,394	29,800	113,283	(48,810)	-	840,667
Foreign exchange receivable	-	-	2	-	-	2
Remainder trusts	2,434	-	712	-	-	3,146
Perpetual trusts	21,708	-	4,164	-	-	25,872
Total investments and other assets	\$ 770,536	\$ 29,800	\$ 118,161	\$ (48,810)	\$ -	\$ 869,687

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

(in thousands of dollars)

Following is additional information related to funds whose fair value is not readily determinable as of June 30, 2012.

	Strategy	Fair Value	# of Investments	Remaining Life	\$ Amount of Unfunded Commitments	Timing to Drawdown of Commitments	Redemption Terms	Redemption Restrictions	Restrictions in Place at Year End
Equity securities	Global developed and emerging market equity	\$ 278,898	2	N/A	\$ -	No remaining commitments	Ranges between daily with no notice to monthly with no notice	None	None
Alternative equities	Long/short and long-biased equity and credit hedge funds	200,686	5	N/A	-	No remaining commitments	Ranges between monthly with no notice to annually	1 fund has a lock-up provision of 3 years from the purchase date	None
Debt securities	High yield and long/short fixed and fixed income hedge funds	42,114	2	N/A	-	No remaining commitments	Ranges from quarterly with 60 days notice to semi-annually with 90 days notice	1 fund has a lock-up provision of 3 years from the purchase date; 1 fund limits annual withdrawals to one-third of original contribution	None
Real estate and mortgages	Commercial, residential, office, and industrial partnerships	22,279	11	1 to 7 years	411	1 to 3 years	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem
Private equity partnerships	Venture and buyout in the U.S. and international	291,221	29	1 to 10 years	129,757	1 to 10 years	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem	Illiquid partnerships - cannot redeem
Other	Natural resources partnerships, illiquid properties/securities	6,121	10	1 to 10 years	88	1 to 3 years	Illiquid partnerships/properties/securities - cannot redeem	Illiquid partnerships/properties/securities - cannot redeem	Illiquid partnerships/properties/securities - cannot redeem
		<u>\$ 841,319</u>	<u>59</u>		<u>\$ 130,256</u>				

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

---

*(in thousands of dollars)*

**5. Land, Buildings, and Equipment**

Land, buildings, and equipment at June 30, 2012 and 2011 consists of the following:

	<b>2012</b>	<b>2011</b>
Land and land improvements	\$ 51,790	\$ 50,803
Buildings	514,624	491,327
Equipment	73,573	67,437
Art/antiques	11,877	11,429
Construction in progress	6,735	11,267
	<u>658,599</u>	<u>632,263</u>
Less: Accumulated depreciation	<u>(289,902)</u>	<u>(267,927)</u>
	<u>\$ 368,697</u>	<u>\$ 364,336</u>

Depreciation expense in 2012 and 2011 was \$22,387 and \$21,758, respectively.

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

---

(in thousands of dollars)

**6. Long-Term Debt**

Long-term debt is comprised of the following at June 30, 2012 and 2011:

	2012	2011
VEHBFA Series 2002A serial bonds \$16,455 original principal (uncollateralized) with annual principal payments increasing from \$970 in 2012 to \$1,440 in 2020, interest ranging from 4.00% - 5.25%	\$ 9,740	\$ 10,710
VEHBFA Series 2002A term bonds \$54,805 original principal, (uncollateralized) \$4,805 and \$50,000 due on November 1, 2022 and November 1, 2032, respectively, interest ranging from 5.00% - 5.375%	54,805	54,805
VEHBFA Series 2006A term bonds \$35,425 original principal, (uncollateralized) 40 year bullet with principal due 2047, interest at 5.00%	35,425	35,425
VEHBFA Series 2009 term bonds \$59,445 original principal, (uncollateralized) due on November 1, 2038 issued at a premium, interest at 5.00%	59,445	59,445
VEHBFA Series 2010 term bonds \$95,035 original principal, (uncollateralized) due on November 1, 2040 issued at a premium, interest at 5.00%	95,035	95,035
VEHBFA Series 2012A serial bonds \$46,150 original principal (uncollateralized) with annual principal payments increasing from \$2,485 in 2018 to \$5,130 in 2033, interest ranging from 2.50% - 5.00%	46,150	-
Revenue bonds issued through the California Statewide Communities Development Agency, collateralized by the Monterey Institute campus with annual principal payments increasing from \$0 in 2012 to \$2,160 in 2031, interest at 5.50%	21,525	21,525
Other	446	923
	<u>322,571</u>	<u>277,868</u>
Less: Discount	(581)	(609)
Plus: Premium	16,600	10,171
	<u>\$ 338,590</u>	<u>\$ 287,430</u>

The estimated fair value of the College's total debt is approximately \$354,000 and \$284,000 at June 30, 2012 and 2011, respectively. The fair value is estimated based on quoted market prices for the same or similar issues.



# Middlebury College

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

---

*(in thousands of dollars)*

#### **2012 Debt Issuance**

In April 2012, the College borrowed \$46,150 in the form of the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Refunding Bonds (Middlebury College Project) Series 2012A (“the Series 2012A Bonds”) in a tax-exempt financing. The proceeds from this issuance will be used to advance refund a portion of the VEHBFA Revenue Bonds (Middlebury College Project) Series 2002A and to pay certain costs of issuance of the Bonds. The net proceeds are held in an escrow account and are presented in the Deposits with Bond Trustees line on the financial statements. The Series 2012A Bonds are payable in annual installments with principal payments ranging from \$1,120 to \$5,130 beginning November 1, 2017, bear interest at the rate of 2.50% to 5.00% per annum, and have a final maturity date of November 1, 2032. There are no principal payments in 2020, 2021, or 2022.

In April 2012, the College sold \$11,885 Revenue Refunding Bonds (Middlebury College Project) Series 2012B (Forward Delivery Bonds) (“the Series 2012B Bonds”) in a tax-exempt financing. As the bonds are forward issue bonds, they are scheduled to be issued and delivered on August 7, 2012. The proceeds from this issuance will be used to refund the portion of the VEHBFA Revenue Bonds (Middlebury College Project) Series 2002A that were not advance refunded by the Series 2012A Bonds, and to pay certain costs of issuance of the Bonds. The Series 2012B Bonds are payable in annual installments with principal payments ranging from \$1,560 to \$3,115 beginning November 1, 2019, bear interest at the rate of 5.00% per annum, and have a final maturity date of November 1, 2023.

#### **2011 Debt Issuance**

In November 2010, the College issued \$95,035 of the Vermont Educational and Health Buildings Financing Agency (VEHBFA) Revenue Refunding Bonds (Middlebury College Project) Series 2010 (“the Series 2010 Bonds”) in a tax-exempt financing. The proceeds from this issuance were used to refund the VEHBFA Adjustable Rate Revenue Bonds (Middlebury College Project) Series 1988A, the VEHBFA Revenue Bonds (Middlebury College Project) Series 2002B and the VEHBFA Revenue Bonds (Middlebury College Project) Series 2008 Variable Rate Demand Obligations, and to pay certain costs of issuance of the Bonds. The Series 2010 Bonds bear interest at the rate of 5.00% per annum and will mature on November 1, 2040.

#### **Credit Lines**

As of June 30, 2012 and June 30, 2011, the College had a \$50,000 three-year-term line of credit with an interest rate of one-month LIBOR plus 2.50%. As of June 30, 2012 and 2011, there were no outstanding balances on this line. The proceeds of the borrowings are to be used for short-term working capital needs, pre-funding capital projects prior to a bond issuance, or providing temporary liquidity for investment transactions.

#### **Debt Maturities**

According to the terms of the VEHBFA bonds, the College is required to make sinking fund deposits to the bond trustee in amounts sufficient to satisfy future debt service obligations. The \$64,625 of principal payments to be made in 2013 includes \$64,545 of Series 2002A Bonds which will be refunded by the Series 2012A and Series 2012B Bonds.

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

---

*(in thousands of dollars)*

Annual principal requirements under all long-term debt obligations as of June 30, 2012 are as follows:

2013	\$	64,625
2014		81
2015		410
2016		690
2017		745
Thereafter		256,020
	<b>\$</b>	<b>322,571</b>

**7. Retirement Plans**

Retirement benefits for benefits eligible employees of the College, including the Institute as of January 1, 2011, are individually funded and vested under a defined contribution program with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Under this plan, the College makes contributions into the employee accounts based upon investment allocations exercised by the employee or defaulted into the Lifecycle mutual funds. This plan is administered by TIAA-CREF. The College's retirement contributions, including the Institute, for the years ended June 30, 2012 and 2011 were approximately \$10,791 and \$10,279, respectively.

The Institute participated under a separate plan prior to January 1, 2011 with the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) and the Variable Annuity Life Insurance Company (VALIC) defined contribution pension plan. These plans covered substantially all full-time employees of the Institute. The defined contribution plan required employees complete one year of service before being eligible for employer contributions. In addition, the employer contributions were determined at the discretion of the Institute. Assets in these plans have been transferred to the College's plans.

**8. Derivative Financial Investments**

**Foreign Currency Contracts**

The College has at times entered into forward currency contracts to hedge the currency exposure associated with operating the College's study abroad language programs. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The fair value of a forward currency contract fluctuates with changes in currency exchange rates. Forward currency contracts are marked to market and the change in value is recorded by the College as an unrealized gain or loss in other nonoperating activities. These contracts may involve market risk in excess of the unrealized gain or loss reflected in the statement of activities. In addition, the College could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if there are movements in foreign currency values that are unfavorable to the College.

**Interest Rate Swap**

The College may use interest rate swaps to manage its interest rate exposure. Swaps expose the College to interest rate risk, counterparty risk, and basis risk. The College believes that the prudent use of interest rate swaps can be an effective tool in managing its debt portfolio.

# Middlebury College

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

---

*(in thousands of dollars)*

The College had no outstanding foreign currency contracts or interest rate swaps as of June 30, 2012. During the year, the College recognized a realized gain of \$2 on a foreign currency contract. As of June 30, 2011 the College had one foreign currency contract with a notional amount of \$172 and an accounts receivable of \$2.

#### **9. Endowment**

The College's endowment consists of donor restricted endowment funds and board-designated funds to function as endowment for a variety of purposes in addition to assets which have been designated for endowment, split interest agreements, and other net assets. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. The Board of Trustees of the College and Institute have interpreted Vermont's and California's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") statutes as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by the UPMIFA statutes.

In accordance with the UPMIFA statutes, the College considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the College and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the College.
- (7) The investment policies of the College.

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

(in thousands of dollars)

The College's endowment for the years ended June 30, 2012 and 2011, delineated by net asset class and donor-restricted versus Board-designated funds were as follows:

	<b>June 30, 2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 367,570	\$ 295,975	\$ 663,545
Adjustment for funds underwater	(880)	880	-	-
Board-designated endowment funds	288,533	-	-	288,533
<b>Total endowment funds</b> June 30, 2012	<b>\$ 287,653</b>	<b>\$ 368,450</b>	<b>\$ 295,975</b>	<b>\$ 952,078</b>

	<b>June 30, 2011</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 383,911	\$ 287,104	\$ 671,015
Adjustment for funds underwater	(2,372)	2,372	-	-
Board-designated endowment funds	307,807	-	-	307,807
<b>Total endowment funds</b> June 30, 2011	<b>\$ 305,435</b>	<b>\$ 386,283</b>	<b>\$ 287,104</b>	<b>\$ 978,822</b>

**Changes in Endowment**

Changes to the College's endowment for the year ending June 30, 2012 were as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets at beginning of year</b>	\$ 305,435	\$ 386,283	\$ 287,104	\$ 978,822
Investment return				
Endowment return	3,050	7,714	191	10,955
Other investment income	-	1,328	96	1,424
Change in value of deferred gifts	(504)	(109)	(2,062)	(2,675)
<b>Total investment return</b>	<b>2,546</b>	<b>8,933</b>	<b>(1,775)</b>	<b>9,704</b>
Contributions	1,389	4,127	10,718	16,234
Appropriation of endowment assets for spending distribution	(23,803)	(24,440)	-	(48,243)
Investment income spending	-	(4,810)	-	(4,810)
Other transfers and adjustments	324	(151)	(2,340)	(2,167)
Transfer to designated endowment funds	270	-	2,268	2,538
Adjustment for funds underwater - fair value less than historic dollar value	1,492	(1,492)	-	-
<b>Endowment net assets at end of year</b>	<b>\$ 287,653</b>	<b>\$ 368,450</b>	<b>\$ 295,975</b>	<b>\$ 952,078</b>

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

(in thousands of dollars)

Changes to the College's endowment for the year ended June 30, 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets at beginning of year</b>	\$ 291,189	\$ 317,212	\$ 272,183	\$ 880,584
Investment return				
Endowment return	49,905	102,193	431	152,529
Other investment income	86	3,173	28	3,287
Change in value of deferred gifts	1	1,131	3,150	4,282
Total investment return	<u>49,992</u>	<u>106,497</u>	<u>3,609</u>	<u>160,098</u>
Contributions	803	1,257	11,090	13,150
Appropriation of endowment assets for spending distribution	(20,510)	(28,129)	-	(48,639)
Transfer for swap termination payment	(12,854)	-	-	(12,854)
Transfer from pledge designation changes	(10,202)	-	-	(10,202)
Other transfers and adjustments	4,625	(9,474)	222	(4,627)
Transfer to designated endowment funds	962	350	-	1,312
Adjustment for funds underwater - fair value less than historic dollar value	1,430	(1,430)	-	-
<b>Endowment net assets at end of year</b>	<u>\$ 305,435</u>	<u>\$ 386,283</u>	<u>\$ 287,104</u>	<u>\$ 978,822</u>

**Permanently Restricted Net Assets**

The portion of permanent endowment funds that is required to be retained permanently either by explicit donor stipulation or by Vermont and California UPMIFA statutes at June 30, 2012 and 2011:

	2012	2011
Restricted for loan funds	\$ 3,181	\$ 3,180
Restricted for annuity and life income funds	9,454	9,406
Restricted contribution receivable	9,565	7,698
Restricted for endowment funds	<u>273,775</u>	<u>266,820</u>
	<u>\$ 295,975</u>	<u>\$ 287,104</u>

**Temporarily Restricted Net Assets**

	2012	2011
Portion of permanent endowment funds subject to an appropriation restriction under Vermont and California UPMIFA statutes, as restated	\$ 322,963	\$ 341,181
Restricted endowment gifts for special purposes	<u>45,487</u>	<u>45,102</u>
	<u>\$ 368,450</u>	<u>\$ 386,283</u>

# Middlebury College

## Notes to Consolidated Financial Statements

### June 30, 2012 and 2011

---

*(in thousands of dollars)*

#### **Underwater Endowment Funds**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater endowments). When underwater endowments exist, any decrease in fair value below the fund's historic dollar value is recorded as a change and transfer from unrestricted net assets to temporarily restricted net assets. Cumulative transfers from unrestricted net assets to temporarily restricted net assets of the College were \$880 and \$2,369 as of June 30, 2012 and 2011, respectively. These resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments, and authorized appropriation that was deemed prudent.

#### **Return Objectives and Risk Parameters**

The College has adopted endowment investment and spending policies that provide for a predictable stream of funding to programs supported by its endowment while seeking to maintain the permanent nature of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The College expects its endowment funds, over time, to generate an average rate of return sufficient to provide for its spending needs plus the rate of growth in expenses at the College, which reflects inflation pressures as well as real growth in the College's program.

#### **Strategies Employed for Achieving Investment Objectives**

To achieve its long-term rate of return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The College targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

#### **Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives**

The College's Board of Trustees approves a distribution of investment return based on the average asset value as determined at the end of the twelve prior calendar quarters. Calculations are performed for individual endowment funds at a rate of 5.00%. The corresponding calculated spending allocations are distributed monthly from the current net total or accumulated net total investment returns for individual endowment funds.

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

---

(in thousands of dollars)

**10. Temporarily Restricted Net Assets**

	2012	2011
The portion of permanent endowment funds subject to an appropriation restriction under Vermont and California UPMIFA statutes and classified as temporarily restricted net assets	\$ 322,963	\$ 341,181
Restricted gifts for scholarship and prizes	18,191	23,121
Restricted gifts for professorships	1,085	3,261
Restricted gifts for special purposes	34,618	31,631
Restricted gifts for capital projects	17,321	9,227
Restricted contribution receivable	23,172	25,764
Restricted annuity and life income gifts	14,995	10,650
	<u>\$ 432,345</u>	<u>\$ 444,835</u>

**11. Commitments and Contingencies**

The College has claims arising in the normal course of its operations. The College believes that the outcome of these claims will not have a material adverse effect on the financial position, activities, or cash flows of the College.

The College has made a commitment to assist the Town of Middlebury (the "Town") to finance the bridge construction project and will pay the Town the sum of \$300 twice per year starting in fiscal year 2011 and continuing until thirty years thereafter. The College has recorded a payable of \$8,989 and \$9,135 for years ended June 30, 2012 and 2011, respectively. The full commitment was for \$18,000 and was discounted at a rate of 5.00%.

**12. Operating Expenses**

Operating expenses by natural classification for the years ended June 30, 2012 and 2011 were as follows:

	2012	2011
Salaries and wages	\$ 103,496	\$ 97,401
Employee benefits	31,942	30,863
Food	4,045	3,689
Utilities	8,733	7,908
Contracted services	13,297	12,114
Supplies	4,393	3,850
Library books and periodicals	2,144	2,087
Interest	14,502	12,860
Amortization and depreciation	21,986	21,548
Travel	6,357	5,466
Taxes and insurance	3,320	2,923
Other	17,332	16,757
	<u>\$ 231,547</u>	<u>\$ 217,466</u>

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2012 and 2011**

---

*(in thousands of dollars)*

**13. Leaseback**

In March 2011 the College entered into a purchase and sale agreement with the Vermont Center For Emerging Technologies, Inc., a Vermont nonprofit corporation (Buyer). The College sold the real estate and improvements located at 5 Court Street in Middlebury, Vermont for the sum of \$2,000. The buyer agreed to lease back to the College a portion of the premises for an initial term of ten years. The College will have the option to renew the lease for two additional terms of five years with the same terms and conditions as the original agreement. The agreement also contains an option to purchase. The College can exercise this option any time after March 8, 2011 or immediately upon the cessation of the Buyer's economic development operations at the premises; the loss of the Buyer's Section 501(c) (3) nonprofit status or the termination or dissolution of the Buyer. The option price will be the lesser of fair market value, as determined by an appraisal or \$2,000. The College's intention is to exercise this option and has recognized a liability of \$2,000 on the balance sheet.

**14. Early Retirement Program**

On February 2, 2009, the College announced a voluntary early retirement program to eligible staff members. On October 15, 2009, the College announced a second voluntary early retirement program, a voluntary separation program, and a faculty retirement incentive program. For the years ending June 30, 2012 and 2011, the liability was \$1,750 and \$2,297, respectively.